

March 7, 2002

**OFFICE OF FINANCE INFORMATION LETTER
ENGINEERING INVENTORY**

1. This letter provides information from the Office of Inspector General Final Report: Audit of VA Medical Center Management of Engineering Supply Inventories (Report No. 99-00192-65). The purpose of the audit was to evaluate the management of engineering supply inventories at VA medical centers. Audit results from five VA medical centers revealed VA medical center engineering supply inventories substantially exceeded immediate operating needs, resulting in a significant amount of excess inventory. The main deficiencies noted were:

- a. Managers did not adequately monitor stock levels;
- b. Unnecessarily large quantity purchases; and
- c. Inventory staff did not effectively manage reductions in item demand.

***NOTE:** The primary conclusion was that better management would reduce inventories.*

2. VA medical centers are advised to manage engineering inventories more efficiently. To accomplish this, facilities are being reminded to address the following two issues that the audit identified as being of special importance for engineering supplies. Unlike most other types of supplies, many engineering supplies are purchased for maintenance and repair purposes. Because these supplies have no other use, there is a risk that excess supplies may never be used. To avoid this problem, facilities should make special efforts to purchase engineering supplies in the smallest quantity feasible. Second, facilities need to reduce the number of storage locations for engineering supplies. The audit found that four VA medical centers stored supplies in multiple locations, ranging from 80 to 170 locations. Storing supplies in too many locations makes it impossible to effectively manage inventories.

3. Veterans Health Administration Handbook 1761.2, VHA Inventory Management, mandates using the Integrated Funds Distribution, Control Point Activity, Accounting, and Procurement (IFCAP) system's Generic Inventory Program (GIP) to properly manage inventories. For VA medical centers, the maximum amount of stock on hand should be a 30-day level. The GIP affords the means for inventory managers to set and monitor stock levels and effectively manage reductions in item demand. Bar coding, in conjunction with GIP has proven to be an effective tool in inventory management and needs to be implemented, as well. In addition, the handbook established requirements that addressed all recommendations from the audit, mandating

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compliance in the management of engineering supply inventories. However, Facilities Management should not compromise the need to have ready access to critical parts and supplies needed to support life sustaining equipment such as critical medical equipment and/or other life safety equipment, including fire suppression and emergency electrical systems. Medical centers are encouraged to keep readily available the materials and supplies sufficient to respond to natural disasters and to meet their responsibilities in community and national emergencies.

4. Direct any questions regarding this guidance to Ron Bednarz, VHA Logistics Office (176A), at 202-273-5680.

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